Revenue Committee

Meeting Summary

February 16, 1999

AMENDED and ADOPTED (3/16/99)

Committee members present: Skip Rowley, Chair, Robert Helsell, Vice-Chair, Roger Dormaier, Mike Roberts

Committee members not present: Councilmember Dave Earling, Governor Booth Gardner, Representative Ed Murray, Dale Nusbaum, Neil Peterson, Larry Pursley, Senator George Sellar, Commissioner Judy Wilson

The Revenue Committee convened at 8:35 a.m. at the SeaTac Holiday Inn. Chairman Skip Rowley opened the meeting by announcing a change in the presentation schedule; aside from the counties presentation, the Committee would also hear from the State Department of Revenue today on the topic of the characteristics of a desirable tax system.

A calendar of future Revenue Committee meetings and their locations through August of this year was distributed.

The Committee considered the meeting notes from the January Revenue Committee meeting. Chairman Rowley read an e-mail from Neil Peterson in which he asked that the "total system costs" issue, which had been deleted from the Committee's topic list in the January meeting be reinstated. Neil argued that 20% or more of a typical family's income in Washington is spent on transportation with only a small fraction spent on public transportation. He felt that reducing a family's expenditures on transportation while increasing the percentage spent on public transportation was a desirable goal. The Committee voted to add back the "total system costs" issue. A motion to approve the January meeting notes was moved by Vice-Chair Bob Helsell and seconded by Mike Roberts. The motion carried.

Presentation on County Funding Issues

The Chair introduced the county presenters: Gary Lowe, executive director of the Washington Association of Counties (WSAC), Jay Weber, executive director of the County Road Administration Board (CRAB), Gary Nelson, a Snohomish County councilmember and chair of WSAC's legislative subcommittee, and Chris Mudgett of the CRAB staff.

Gary Nelson led off and talked briefly about the partnership among counties, the state, the federal government and other local governments in the transportation arena. He noted the various funding sources: the federal gas tax, the state gas tax, and the county road levy. He also mentioned transportation mitigation fees and the concurrency issue – an area has six years to provide infrastructure after a development goes in or must face the possibility of returning the mitigation fee money for the infrastructure improvements.

Jay Weber from CRAB spoke next. Mr. Weber said CRAB was unique to Washington state – no other states have this type of organization. CRAB's responsibilities are 1) assuring professionalism in county transportation, 2) assuring all 39 counties have county engineers,
3) issuing standards of good practice that meet transportation professionalism standards,
4) administering the Rural Arterial Program (RAP) and the County Arterial Preservation Program (CAPP) and 5) providing technology to counties.

Next, Chris Mudgett from the CRAB staff outlined county transportation issues and funding. In her overview, Ms. Mudgett said that counties in Washington are responsible for approximately 41,000 miles of roads. The three major sources of county transportation funds are the county road levy, the state gas tax, and federal transportation funds (TEA-21). Counties have authority to levy up to $2.25 per $1,000 in assessed valuation (property tax). The road levy has the same protection as the 18th amendment to the state constitution; it can be used on road projects only.

Maintenance and preservation are primary concerns to counties. In 1997, counties spent $222 million on maintenance and preservation and over the next three years, counties are estimating a $670 million shortfall in maintenance and preservation. A pie chart showing county road fund revenues showed an "Other" category. This was explained as including mitigation fees. A Committee member asked whether there was a better way to manage mitigation fees – can they be leveraged so projects will get built?

Ms. Mudgett went on to say that most counties are well below their $2.25/$1,000 allowable levy. The issue of diversion of road levy funds arose, with a Committee member saying the Committee did not want diversions to occur. The county panel responded that diversions are mostly not occurring, but that state statute does allow road levy funds to be used for "other purposes" such as traffic enforcement. Jay Weber stated that it is a violation of law not to use a road levy for road purposes and that the best assurance against road levy diversion was that counties only have 70-75% of the transportation funds they need. He said counties are also responsible to the state auditor for uses of road levy funds.

The issue of responsibility for roads when an incorporation occurs was raised. The panel responded that the road debt remained with the county, and the maintenance and preservation function was transferred to the city. Mr. Weber stated that pre-incorporation agreements could shift debt.

Ms. Mudgett then talked about state revenues. Counties receive a direct distribution of 5.46 cents from the 23 cent gas tax. Counties distribute gas tax by a statutory formula with four parts - 10% is divided equally among counties, 30% by "equivalent population," 30% by annual road costs, and 30% by needs.

There are two state grant programs administered by CRAB. They are the Rural Arterial Program (RAP) and the County Arterial Preservation Program (CAPP).

- The RAP is funded by 0.58 cents of the state gas tax and distributes $17 million annually. RAP funds are intended to provide funding to reconstruct and upgrade rural arterial roadways and bridges. By statute, there are five RAP regions in the state, and grants are competitive within regions. A Committee member asked if CRAB has discretion on spending on major projects. The answer given was that the Board has discretion if funds are not spent on time.
- The CAPP is funded by 0.45 cents of the state gas tax and distributes $13.5 million annually. CAPP funds are intended to assist counties in preserving paved arterial roadways. Urban roadways are eligible for CAPP funds. Counties must have a pavement management system to be eligible for CAPP funds. All counties in Washington have such systems.

The panel said federal transportation funding comes through the TransAid office of WSDOT. The MPO's must approve local governments transportation plans for the local governments to receive TEA-21 funding.

There was a brief discussion of other county transportation funding sources, mainly local option taxes authorized by the legislature in 1990. Only four counties - King, Pierce, Snohomish and Douglas have implemented the $15 vehicle license fee, and no counties have been successful in implementing the local fuel tax (up to 10% of the state rate with a public vote).

A Committee member asked why the fuel tax portion of Ascent 21 - a 1998 package of taxes for improvements in Snohomish county- failed. Mr. Nelson responded there was concern in the resulting difference in gas prices between counties, and that the percentage rate of the increase - up to 10% of the state rate - was confusing to people. He suggested a flat rate would be less confusing and more salable.

A Committee member commented that there is discussion of the local areas keeping more of the gas tax generated in their respective areas. Mr. Weber compared that to balkanizing the system, and cited the example of Wenatchee apples getting to the Port of Seattle for shipment - a seamless system was needed. He cited corridor funding as a possible solution to the problem of local governments feeling that too much of their gas tax revenue goes elsewhere.

A Committee member asked about the potential Endangered Species Act (ESA) impact on counties. Mr. Weber responded that in King County alone, he estimated a 25% increase in costs on all transportation projects in the first year alone.

A Committee member asked how the counties would simplify the system and make it more efficient. Among the suggestions from the panel were 1) permanently indexing the state gas tax, 2) tax increment financing to address the transitional issues between cities and counties when incorporations and annexations occurred, 3) an annual update of something like the late 1980's Road Jurisdiction Study to see "where we are" annually in keeping up with transportation needs, 4) the local option gas tax should be a flat rate and not a percentage of the state rate, and 5) tort liability for roads was a continual burden - the argument used by plaintiffs' lawyers that roads not built to current standards were causing accidents. The Committee chair asked for a list of ideas from the counties.

Committee staff Mike Doubleday then briefly discussed the four issue briefs for city/county transportation funding that staff would prepare for decisions by the committee. The issues for review are 1) the gas tax distribution formula to cities and counties, 2) the gas tax distribution formula to the TIB and CRAB boards, 3) use of local funds for transportation, and 4) new creative ways to fund city/county transportation needs. Each issue brief would examine the issue in some depth and recommend possible changes. No decision was made on moving forward with the issue briefs but the Chair indicated staff should proceed if there was no changes suggested by Committee members after their review.

Discussion of Fiscal Working Group Recommendations

Mr. Doubleday then discussed the LTC's Final Report of the Legislative Fiscal Working Group which met over the 1998 legislative interim. The working group made six recommendations, two of which are germane to the Revenue Committee - one to simplify the gas tax distribution statute, and the second to eliminate or consolidate selected transportation funds and accounts (the so-called funding "buckets.") The account consolidation recommendation would reduce the number of transportation funding "buckets" from 44 to 35. Both recommendations are now in bill form before the legislature.

Presentation on Characteristics of a Good Tax System

The second presenter of the morning was Don Taylor, the Revenue Analysis Manager from the state Department of Revenue. Mr. Taylor spoke about the desirable characteristics of a tax system. He said there are seven recognized principles of taxation from the public management literature. They are 1) productivity, 2) equity, 3) stability, 4) a broad-based system, 5) simplicity, 6) flexibility, and 7) economic neutrality.

The issue under the first principle - productivity - is does the system produce adequate revenues to fund necessary public services. Mr. Taylor indicated that the Washington tax system (including the transportation taxing system) is productive as long as the economy is sound.

The equity issue is whether the system is fair to all taxpayers. Is the tax system progressive or regressive? Washington's tax system on the whole is deemed to be regressive, that is, it is not based on people's ability to pay but rather on their consumption. However, the gas tax is a classic user fee - the burden is placed on the people using the system - which is considered more progressive. Mr. Taylor did say that while Washington's tax burden is considered "low" on the individual it is considered a "high" taxing state on business.

The third principle is stability; do revenue collections fluctuate widely with changing economic conditions? Mr. Taylor discussed tax elasticity - the ratio between revenue collections and variables such as personal income.

Is the tax system broad-based? Does it utilize all possible sources of revenue with the lowest possible rates? Washington is not considered a broad-based tax system since there is no income tax. Therefore, Washington's economy can significantly affect tax collections.

Simplicity. Is the tax system easy for taxpayers to understand and report their tax liability correctly?

Is the tax system flexible? Can taxes be easily changed to reflect changing economic and political conditions? Mr. Taylor noted that some taxes in Washington - the sales tax for example, are reaching their practical limit. A Committee member asked what the fiscal implication would be if the sales tax on new construction of roadways was placed in the transportation arena and not in the general fund. Mr. Taylor said he would get back to the committee with that number. Mr. Taylor also noted that local governments are creatures of the state in taxation - they cannot raise taxes without authority to do so by the legislature.

The last principle is economic neutrality; in other words, the tax system does not want to influence or modify behavior significantly. The gas tax is an exception to this general principle. A Committee member asked where the state's 23 cent gas tax fit into the principles. Mr. Taylor said the gas tax can be regressive- it is not based on people's ability to pay. He also reiterated that the gas tax is a classic user fee.

With no more business to come before the Committee, the Chair adjourned the meeting at 11:35 a.m.